

BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

POSTED
OCT 15 1996

S.C. PUBLIC SERVICE COMMISSION
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TEGA CAY WATER SERVICE, INC.
PROPOSED INCREASES IN WATER AND
SEWER RATES

DOCKET NO. 96-137-W/S

TESTIMONY OF

MICHAEL A. BLEIWEIS

S.C. PUBLIC SERVICE COMMISSION
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UTILITIES DEPARTMENT

ON BEHALF OF

THE CONSUMER ADVOCATE

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OCTOBER, 1996

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Appendix A

SCHEDULES

1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Michael A. Bleiweis and my business address is 733 Summer
4 Street, Stamford, Connecticut.

5 **Q. By whom are you employed?**

6 A. I am employed by The Woodside Group, Inc., a financial and
7 management consulting firm.

8 **Q. What position do you hold with The Woodside Group and in what
9 endeavor do you specialize?**

10 A. I am a principal specializing in public utility rate cases. Over the course
11 of my career, my services have been utilized by public utilities and
12 various consumer advocate and public interest groups.

13 **Q. For whom are you testifying in this proceeding?**

14 A. I am testifying on behalf of the Consumer Advocate.

15 **Q. What is your educational background?**

16 A. I am a graduate of Syracuse University with a Bachelor of Arts degree in
17 Political Science and of New York University Graduate School of
18 Business Administration with a Masters of Business Administration
19 degree in Securities Analysis and Financial Analysis.

1 **Q. What has been your business experience?**

2 A. In 1973, I was employed as an economic research consultant with the firm
3 of National Economic Research Associates (NERA) where I was involved
4 in the preparation of rate of return exhibits that were based upon
5 computer modeling for various utility companies.

6 In 1974, I joined the firm of Citizens Utilities Company as a Revenue
7 Requirements Analyst. My duties included the preparation of financial
8 exhibits and testimony for various electric, water, gas and sewer company
9 rate cases.

10 In 1977, I joined American Water Works Service Company as Director of
11 Rates and Revenue of the Eastern and New England Divisions of
12 American Water Works Company, Inc. I was charged with the
13 responsibility of preparing financial exhibits, supporting data and
14 testimony for use in rate hearings for a total of thirteen water companies
15 in New England, New York and New Jersey.

16 I have been employed at The Woodside Group since 1979.

17 **Q. Please describe further your experience in regulatory matters.**

18 A. Attached as Appendix A, is a listing of the proceedings in which I have
19 testified or participated concerning the proper determination of revenue
20 requirements and other rate-related topics.

1 **II. SUMMARY OF CONCERNS**

2 **Q. Mr. Bleiweis, will you please summarize your major concerns as**
3 **presented in the following testimony.**

4 **A. I have two major concerns based upon my review and analysis of the**
5 **company's filing and replies to data requests.**

6 First, the company has made little effort to present its booked test year
7 expenses on a normalized basis. It is an accepted ratemaking practice
8 that future rates should be based on test year expenditures that are
9 representative of future conditions. Booked expenses cannot simply be
10 accepted at face value. The burden should be placed upon the company,
11 not upon the Staff or the Consumer Advocate, to present test year data
12 which has been adjusted to reflect normal conditions. I will present
13 several adjustments in this proceeding which adjust expenses to a
14 normalized level.

15 Second, a large portion of the company's expenses have been allocated
16 to it by the parent company or other sister companies. Yet, the company
17 has provided no support for these booked expenses in the form of
18 testimony or workpapers. I have questioned a series of these
19 expenditures, since they appear to have no direct benefit to the
20 company's ratepayers. Unless the company can explain and support
21 these allocations in detail, they should not be accepted for ratemaking
22 purposes.

1 **Q. How do your adjustments affect the company's pro forma operating**
2 **margin at present rates?**

3 **A. As shown on Schedule MAB-1, I have calculated the company's pro forma**
4 **operating margin at present rates to be a positive 0.23%, as compared to**
5 **the company's claim of negative 4.19%**

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III. ISSUES

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A. Salaries & Wages

Q. Please explain the derivation of the salaries and wages expense charged to the company during the test year ended December 31, 1995.

A. During the test year, \$161,880 of salaries and wages expense was charged to the company. The derivation of this expense is as follows:

Tega Cay Water Service, Inc. Salaries & Wages Expense Test Year Ended December 31, 1995				
<u>Acct No.</u>	<u>Account</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
508-20	Salaries charged to Plant	(\$1,815)	(\$1,735)	(\$3,550)
508-08	WSC-Salaries Operators	57,874	55,322	113,196
508-45	WSC-Salaries Computers	2,938	2,809	5,747
508-53	IL-Salaries Office	2,169	2,073	4,242
508-54	IL- Salaries Admin.	5,220	4,989	10,209
508-58	SC-Salaries Office	11,447	10,943	22,390
508-70	IL-Salaries Admin. Office	1,057	1,010	2,067
508-71	IL-Salaries Office Exempt	3,875	3,704	7,579
	Total	\$82,765	\$79,115	\$161,880

Source: C.A. #1-5

As shown above, the Commission should be aware that virtually all of the salaries and wages expense charged to the company is allocated either from the Water Service Corporation (WSC) or from the parent's Illinois office. Thus, as a subsidiary, Tega Cay has little control over the wage expense that appears on its books and upon which this rate case is predicated. It is difficult to determine whether these allocations are

1 reasonable since the company has not disclosed, either in the filing or in
2 its testimony, the underlying assumptions related to these salaries, such
3 as, the amount and timing of any pay increases.

4 **Q. Isn't it true that pro forma salaries & wages expenses are less than**
5 **the test year booked amount?**

6 A. Yes. Because all of its water supply is now being purchased, the
7 company has not filled two vacant operator positions which, therefore,
8 reduces total payroll.

9 **Q. Have pro forma salaries & wages been annualized at the end of the**
10 **test year, which is a normal ratemaking practice?**

11 A. No, salaries & wages have been annualized as of April 23, 1996, almost
12 four months after the end of the test year. It is normal ratemaking
13 practice that the major elements of the ratemaking formula- rate base,
14 income statement and rate of return- be synchronized as of the same
15 date. If such elements are not in synch, then an unfair return to the
16 company could result. In this case, the company is presenting a post-test
17 year adjustment to expenses without an annualization of revenues at the
18 same date. Even though this Commission does not adjudicate water rate
19 cases on the rate base/rate of return methodology, this mismatch is still
20 unfair to the ratepayers who are supporting the company through rates.

1 Q. Since we are now in October, 1996, isn't it proper to recognize the
2 wage increase at the April, 1996 date that the company is proposing
3 for annualization purposes?

4 A. No. First, the company has not explained either in the filing or in
5 testimony, the significance of the April date. I assume that this is the date
6 upon which the parent and subsidiaries receive wage increases, but this
7 is unclear.

8 Second, it was the company's choice to file this rate case based upon a
9 1995 test year. A later test year could have been utilized that would have
10 incorporated the April wage increase and negated the necessity for a
11 post-test year adjustment, but it was not. Therefore, in order to be fair,
12 annualizations based upon circumstances occurring after the end of the
13 company's chosen test period should not be allowed.

14 Q. What do you recommend?

15 A. In order to be fair to ratepayers and to be consistent with other
16 adjustments, I recommend that salaries and wages be annualized as of
17 12/31/95, the end of the test year. C.A.#2-10 requested that the company
18 recalculate pro forma salaries & wages at that date in the same format as
19 the reply to C.A.#1-17. However, the reply to C.A.#2-10 was not in the
20 format requested. Therefore, on Schedule MAB-3, I have attempted to
21 recalculate pro forma salaries & wages at December 31, 1995 utilizing the

1 data received. The result of this recalculation is a reduction of \$2,128 to
2 the company's claim. Please note that this recalculation at test year-end
3 is for Operators and Office employees only and does not include
4 allocated salaries for WSC for which the company provided no
5 workpapers. The Commission should require the company to recalculate
6 WSC allocated salaries at December 31, 1995 and include the difference
7 between this total and the booked total as an adjustment to salaries &
8 wages expense.

9 Also, the Commission should require the company to present supporting
10 data for all of the salary expense that is allocated in subsequent rate case
11 filings. Such data should include the wage increases granted each
12 employee and how allocations were determined.

1 **B. Expense Variances**

2 **Q. Have you noted a number of expense increases during the test year**
3 **as compared to the two prior years?**

4 **A.** Yes. As a matter of normal analysis, I prepare a comparison of O&M
5 expenses by account, including and excluding labor, over a 3-year period.
6 In this way, I can determine if there are any abnormal expenditures that
7 are included in the company's test year claim. Upon determining whether
8 such variances exist, I then request the company to explain the reasons
9 behind the expense increases and make a determination as to whether
10 some variances should be adjusted for ratemaking purposes.

11 In this proceeding, I noted a number of large variances, both increases
12 and decreases. I am especially concerned with some of these increases.

13 **Q. Why are you only concerned with increased variances?**

14 **A.** If the company considered some of the downward variances to be
15 abnormal, then, I assume pro forma adjustments would have been made.
16 Since no such adjustments were made, the Commission should consider
17 such expenditures to be normal. The burden is upon the company to
18 make such adjustments, not upon myself or the Consumer Advocate.

1 Q. Can you point out some of the larger variances?

2 A. Yes, they include the following:

Tega Cay Water Service, Inc. Comparative O&M Expenses Excluding Labor Test Year Ended December 31, 1995								
Water								
	<u>12/31/93</u>	<u>\$</u>	<u>%</u>	<u>12/31/94</u>	<u>\$</u>	<u>%</u>	<u>12/31/95</u>	
506-10 Chlorine	2,267	602	26.55%	2,869	850	29.63%	3,719	
531-11 Employee Insurance Deductions	(2,062)	912	-44.23%	(1,150)	1,005	-87.39%	(145)	
531-12 Health Costs & Other	333	(91)	-27.33%	242	7,553	3121.07%	7,795	
531-70 ESOP Contributions	2,210	413	18.69%	2,623	447	17.04%	3,070	
553-02 Answering Service	155	3	1.94%	158	147	93.04%	305	
553-03 Computer Supplies	0	167		167	1,507	902.40%	1,674	
553-05 Postage & Postage Meter	7,584	(4,940)	-65.14%	2,644	1,920	72.62%	4,564	
555-36 Operations Telephones-LD	43	133	309.30%	176	522	296.59%	698	
604-13 Operators Postage	0	0		0	460		460	
604-16 Operators Memberships	20	81	405.00%	101	410	405.94%	511	
Sewer								
	<u>12/31/93</u>	<u>\$</u>	<u>%</u>	<u>12/31/94</u>	<u>\$</u>	<u>%</u>	<u>12/31/95</u>	
531-11 Employee Insurance Deductions	(1,011)	(95)	9.40%	(1,106)	968	-87.52%	(138)	
531-12 Health Costs & Other	163	70	42.94%	233	7,219	3098.28%	7,452	
531-70 ESOP Contributions	1,084	1,441	132.93%	2,525	409	16.20%	2,934	
553-02 Answering Service	76	76	100.00%	152	140	92.11%	292	
553-03 Computer Supplies	0	160	#DIV/0!	160	1,440	900.00%	1,600	
553-05 Postage & Postage Meter	3,719	(1,174)	-31.57%	2,545	1,817	71.39%	4,362	
555-36 Operations Telephones-LD	21	148	704.76%	169	499	295.27%	668	
603-03 Sewer-Maintenance Supplies	1,637	2,096	128.04%	3,733	974	26.09%	4,707	
603-06 Sewer-Maintenance Repairs	7,021	1,519	21.64%	8,540	1,900	22.25%	10,440	
603-09 Sewer-Elec. Equip. Repair	1,054	797	75.62%	1,851	611	33.01%	2,462	
603-11 Sewer-Sewer Rodding	2,024	5,230	258.40%	7,254	5,648	77.86%	12,902	
604-13 Operators Postage	0	0		0	440		440	
604-16 Operators Memberships	10	87	870.00%	97	391	403.09%	488	
606-20 Sewer Tests	8,628	240	2.78%	8,868	5,595	63.09%	14,463	

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5 Q. As shown above, do many of the same accounts for both water and
6 sewer have large variances?

7 A. Yes. Many of these accounts are payroll-related or office supply-related.
8 Most of these expenses appear to have been allocated from the WSC,
9 again, calling into question service company practices. As discussed
10 further below, I recommend that the company be required to provide
11 detailed information to support all expenses that are allocated to it from

1 other sources. Just to include these large test year expenditure variances
2 without an explanation should be regarded as an unacceptable
3 ratemaking practice.

4 **Q. How has the company explained the large increases in sewer**
5 **expense for the 603 and 606 accounts?**

6 A. The company explained the 26% increase in Maintenance Supplies and
7 the 22% increase in Maintenance Repairs as follows:

8 "Sewer maintenance supplies and repairs increased as part
9 of the '10% program' to clean mains and identify problem
10 areas and repair them. The 10% cleaned were found to
11 have more problems than the 10% cleaned in the previous
12 year." (C.A.#2-7)

13 **Q. What do you recommend?**

14 A. Since test year expenditures were based upon "more problems" than the
15 year before, it is clear that the test year expense is abnormal. I
16 recommend that a three-year average of actual expenditures in accounts
17 603-03 and 603-06 be utilized to determine a "normal" expense for
18 ratemaking purposes.

19 **Q. How has the company explained the 78% increase in the Sewer**
20 **Rodding account?**

21 A. The company explained that:

1 "Sewer rodding increased due to an increase in sewer
2 backups. Mains were televised to locate problem areas.
3 Sections of mains were then pressure washed or roots cut
4 with a cutting device." (C.A.#2-7)

5 Since the test year included an "increase in sewer backups", the test year
6 expense is clearly abnormal. Again, I recommend that a three-year
7 average of actual sewer rodding expense be used to determine a normal
8 expense for ratemaking purposes.

9 **Q. What was the reason given for the 63.09% increase in Sewer Tests?**

10 **A.** The company replied that:

11 "The increase in sewer costs is due to the NPDES permit
12 requiring additional test in 1995 for nitrogen-ammonia and
13 total phosphorous which were not required in 1994. In
14 addition, further sampling was required for mixed liquor
15 suspended solids (MLSS) for better process control at the
16 wastewater treatment plants." (C.A.#2-7)

17 The above reply does clarify whether the tests required in 1995 will
18 continue to be necessary in the future. If such tests are required, then the
19 test year expense appears proper because it represents a normal level of
20 expenditure. If such tests were only required in 1995, then the test year
21 expense is abnormal and a three-year average should be taken. I have
22 not made an adjustment at this time. However, the company should
23 clarify whether the described tests are ongoing and the Commission
24 should reflect an adjustment, if necessary, in its Order, based upon this
25 clarification.

- 1 As shown on Schedule MAB-4, the result of the above recommendations
- 2 is a \$8,630 downward adjustment to expense.

1 **C. Deferred Charges**

2 **Q. Has the company included a pro forma expense claim for deferred**
3 **charges?**

4 **A. Yes, the company is claiming deferred charges amortization of \$4,130 for**
5 **water and \$2,766 for sewer.**

6 **Q. To be clear, what is a deferred charge?**

7 **A. For ratemaking purposes, a deferred charge is an expense that the**
8 **company incurred in a period prior to the test year which is being claimed**
9 **as part of pro forma test year expense.**

10 **Q. What types of deferred expenses are being claimed?**

11 **A. Most of the claimed expenses are related to tank maintenance.**

12 **Q. Do you know when these charges were incurred?**

13 **A. From the reply to C.A.#2-12, the following can be determined:**

14	Tank Maint (w)-1	10/1/91
15	Tank Maint (w)-2	6/1/92
16	Tank Maint (w)-5	1/1/95
17	Clean SWR Dry Wells	6/1/92
18	Pr. Wash Sewer Mains	8/1/93
19	Tank Maint (s)-1	10/1/91
20	Tank Maint (s)-3	8/1/93

1 Thus, only one of the maintenance expenditures occurred during the test
2 year.

3 **Q. Shouldn't it be up to the Commission to determine if expenditures**
4 **should be deferred and later claimed for ratemaking purposes?**

5 A. Yes. The company should come to the Commission and request
6 permission to defer expenditures on its books and, then, the Commission
7 should decide whether the company should be given the opportunity, not
8 the right, to request that such expenditures be reflected in a later rate
9 case. If such requests are made, then the parties should be given the
10 opportunity to question the company about the propriety of the
11 expenditures.

12 **Q. Should the company's request for recognition of past expenditures**
13 **be accepted for ratemaking purposes?**

14 A. The company states that:

15 "The deferral of these expenditures was approved by the
16 PSC in Docket No. 92-638-W/S." C.A.#1-20

17 However, this statement is not consistent with the company's statement in
18 the reply to C.A. 1-25 that:

19 "The company had only one previous rate case and it was
20 for sewer only."

1 Therefore, it appears that three of the four claims for deferral of prior
2 water tank maintenance expenses are new claims. Since this is so, I
3 recommend that the amortization of the prior water deferrals in the
4 amount of \$3,808 (\$177+\$3,519+\$112) not be accepted for ratemaking
5 purposes in this proceeding.

6 Ratemaking does not guarantee that utilities be reimbursed for every
7 penny spent. It is not fair to ratepayers that expenditures made well
8 before the beginning of the test year be recognized during the test year.
9 If the company wants such expenditures to be recognized, it can file a
10 base rate case or request that such expenditures be deferred on its books
11 and an opportunity to recover such expenses be given in a subsequent
12 rate case.

13 Further, I am concerned about the company's statement that these types
14 of expenditures "recur on average every five years." (C.A.#1-20) No
15 support is given for this statement. The Commission should not accept
16 this statement on face value unless a history of tank maintenance
17 provided by the company proves it to be so.

18 **Q. Should a further adjustment be made to the company's pro forma**
19 **claim?**

20 **A.** Yes. Based upon the data presented in the reply to C.A.#1-20, the
21 amortizations for "Tank Maint (w)-1"-\$177 and "Tank Maint (s)-1"-\$171

1 will be ending in 1996. As such, even if the Commission allows deferred
2 charges for water, no amortization for the above two items should be
3 recognized for ratemaking purposes since such amortization is non-
4 recurring.

1 **D. Regulatory Commission Expense**

2 **Q. Do you have any observations regarding the company's rate case**
3 **expense claim?**

4 **A.** Yes. I recommend that the Commission consider rate case expenditures
5 to be a **normalized** expense no different from any other normalized
6 expense allowed for ratemaking purposes. Since water utilities,
7 especially, are filing rate cases on a more frequent basis, rate case
8 expense should be recognized as a normal cost of doing business. For
9 ratemaking purposes, this means that only the normalized expense of the
10 current case should be recognized, with the unamortized portion being
11 eliminated for recognition in subsequent proceedings.

12 Further, it is a general ratemaking principle that ratepayers who benefit
13 from a particular utility expenditure should bear the cost. Therefore, the
14 Commission should also ensure that no unamortized rate case expense is
15 included in rate base or allowed as part of pro forma test year expense so
16 that there is a proper matching of costs and cost responsibility.

1 **E. Income Taxes**

2 **Q. Should the state income tax expense as filed by the company be**
3 **recalculated?**

4 **A. Yes. The company has stated that pro forma state income tax expense**
5 **was calculated at 5.50%, rather than at the statutory rate of 5.0%. The**
6 **company should refile its schedules utilizing the correct state income tax**
7 **rate.**

1 **F. Customer Growth**

2 **Q. How has the company determined its adjustment for customer**
3 **growth?**

4 **A.** The company has calculated its customer growth adjustment by
5 multiplying the percentage change in billing units between the end of the
6 test year and the average test year by pro forma net operating income at
7 both present and proposed rates.

8 **Q. What is this adjustment supposed to represent?**

9 **A.** I am not sure but I believe that by making this adjustment the company is
10 trying to say that net income varies proportionally with numbers of
11 customers.

12 **Q. Is this the type of customer growth adjustment with which you are**
13 **familiar in other ratemaking proceedings?**

14 **A.** No. In my experience, this type of customer growth adjustment is unique.
15 To say that net income varies proportionally with numbers of customers is
16 ludicrous. For this to be true, every revenue and expense account would
17 have to be considered to be variable. There would be no fixed expenses
18 or expenses that might be variable but which are not dependent on
19 customer growth.

1 Q. How is a customer growth adjustment normally calculated for
2 ratemaking purposes?

3 A. It is incontestable that revenues vary directly with the number of
4 customers- as customers increase, so do revenues. Therefore, the
5 customer growth adjustment usually reflects the growth in revenues due
6 to the growth in customers.

7 Below, I have calculated a customer growth adjustment based upon the
8 change in billing units as applied to revenues per billing unit. The result
9 is a net revenue adjustment of \$5,954, after adjustments for revenue
10 related expenses.

11 It is my recommendation that the Commission accept such an adjustment
12 which is based upon the true relationship between customer growth and
13 revenues.

Tega Cay Water Service, Inc.			
Customer Growth Adjustment			
Test Year Ended Decmber 31, 1995			
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
End of test year billing units	18,156	17,196	
Average test year billing units	17,950	17,069	
Change in billing units	<u>206</u>	<u>127</u>	
P.F. revenues @ present rates	<u>\$239,111</u>	<u>\$426,725</u>	
Revenue per billing unit	<u>\$13.32</u>	<u>\$25.00</u>	
Adjustment	<u>\$2,744</u>	<u>\$3,175</u>	\$5,919
Miscellaneous revenues @2.00%			118
Uncollectible accounts @.30%			(18)
Gross receipts tax @1.10%			<u>(65)</u>
Net adjustment			<u>\$5,954</u>

1 **G. Wells**

2 **Q. Is a balance being claimed in rate base for wells?**

3 A. Yes. According to the reply to C.A.#1-53, rate base includes a net
4 balance of \$51,980 for wells.

5 **Q. Was any water produced from the company's wells during the test**
6 **year?**

7 A. No. According to the reply to C.A.#1-52, no water was produced from the
8 company's wells during the test year. No water was produced because all
9 water sold for consumption is purchased.

10 **Q. If no water was produced from the company's wells during the test**
11 **year and it is a known fact that the company is now purchasing and**
12 **will continue to purchase its water supply in the future, should the**
13 **balance for wells be included in rate base?**

14 A. No. The company's wells do not meet the ratemaking standard of being
15 used and useful and, therefore, should not be included in rate base. If the
16 wells are not being used, then no return should be earned upon them.
17 The Commission should reflect a \$51,980 reduction to rate base which
18 will affect the calculation of pro forma interest expense.

1 **H. Allocations**

2 **Q. It is evident from discovery responses that a large amount of**
3 **expenses that appear on the company's books is allocated. First,**
4 **did the company include any support for these allocations either in**
5 **the initial filing or in testimony?**

6 **A. No, the company provided no such support. Certainly, the burden is upon**
7 **the company to provide support for all its expense claims.**

8 **Q. Since no supporting material was provided, have you attempted to**
9 **determine the amount of expenses that are allocated to the company**
10 **on an annual basis?**

11 **A. Yes. C.A.1-41 requested the company to provide detailed schedules**
12 **supporting all expenses allocated to Tega Cay over the past three years.**
13 **The reply to this request contained numerous data sheets but no**
14 **summary of expenses which made it very difficult to discern the answer to**
15 **the above request. However, I have attempted to perform an analysis**
16 **(shown below) which, to the best of my knowledge, determined that**
17 **almost \$300,000 of expenses were allocated to the company during 1995,**
18 **as compared to total booked O&M expense of about \$476,000.**

Tega Cay Water Service, Inc.
Allocated Expenses
Test Year Ended December 31, 1995

Direct Salaries	
SC Operators	\$90,733
Gross Salary	7,571
Total Payroll Tax	18,346
Total Benefits	<u>116,650</u>
Subtotal	
NC Operators	
Gross Salary	22,463
Total Payroll Tax	1,609
Total Benefits	2,586
Subtotal	<u>26,658</u>
NC Office	
Gross Salary	22,390
Total Payroll Tax	1,795
Total Benefits	4,826
Subtotal	<u>29,011</u>
Computer Costs	12,336
Other Insurance	13,563
General Expenses	56,451
Distribution between Companies	<u>41,478</u>
TOTAL	<u><u>\$296,147</u></u>

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2 **Q. What are the basic categories of expenses which are allocated to the**
3 **company?**

4 **A. Basic expense categories include Direct Salaries, Computer Costs,**
5 **Insurance, Common Expenses and expenses between companies.**

1 **Q. You have discussed salary allocations above. How do test year**
2 **allocated salaries compare to prior years?**

3 **A. Over \$160,000 of salaries was allocated to Tega Cay during the test year.**
4 This amount compares to about \$140,000 of salaries allocated during
5 1994 and \$110,000 during 1993, not including payroll-related items such
6 as pensions and other benefits.

7 **Q. Can you provide examples of the types of computer costs that are**
8 **allocated to Tega Cay?**

9 **A. Yes. Such costs include Outside Computer Consultants, Computer**
10 **Salaries, Microfilming and Computer depreciation.**

11 **Q. Please provide examples of Insurance costs which are allocated.**

12 **A. Allocated insurance costs include General Property, Excess Liability,**
13 **Auto, and Workman's Compensation**

14 **Q. Are you concerned with the types of Common Expenses that are**
15 **being allocated to Tega Cay?**

16 **A. Yes, I am. I call into question the types of common expenses being**
17 allocated to the company. Such expenses include legal fees, audit fees,
18 director fees, office cleaning service, landscaping & mowing, office
19 garbage removal, etc. It certainly is not clear what benefit some of these
20 expenditures have for the customers of Tega Cay.

1 Q. What do you recommend?

2 A. It is important that customers pay only for expenses that directly benefit
3 the operation of the utility that provides service to them. Just to allocate a
4 myriad of expenses without testimony or direct support, is not enough for
5 such expenses to be accepted for ratemaking purposes. I offer three
6 recommendations.

7 First, I recommend that the Commission disallow the following non-salary
8 allocated general expenses in the amount of \$25,493. The company must
9 supply detailed support and explain why such expenses provided a direct
10 benefit to Tega Cay customers and should, therefore, be allowed for
11 ratemaking purposes.

Tega Cay Water Service, Inc. General Expenses to Be Disallowed Test Year Ended December 31, 1995	
Agency Expense	\$76
Legal fees	550
Audit fees	2,047
Temp. Empl.	235
Employ Finder Fees	708
Director Fees	2,864
Accounting Studies	235
Tax Return Review	522
Other Outside Services	372
Deferred Compensation	31
Publ Subscriptions & Tapes	186
Printing & Blueprints	294
UPS & Air Freight	148
XEROX	121
Off Supply Stores	406
Cleaning Supplies	67
Memberships	68
Office Telephone	640
Office Telephone Long Dist	159
Office Electric	601
Office Cleaning Serv	499
Landscaping, Mowing, Snow	372
Office Garbage Removal	31
Decor & Repaint Structures	24
Other Office Maint	925
Employees ED Expenses	339
Office Education/Train Exp	697
Bank Serv Charges	1,674
Real Estate Tax	1,281
Interest-Interco.	9,321
TOTAL	<u>\$25,493</u>

1

2

Second, I recommend that the Commission order a complete audit of the expenses allocated to Tega Cay including the types of expenses that are normally allocated and the methods of allocation.

3

4

5

Third, I recommend that the Commission require the company to supply a complete set of clear, concise workpapers supporting all its allocated expense claims as part of its next rate filing.

6

7

1 **I. Tap Fees**

2 **Q. Does the tariff include tap fees for water and sewer?**

3 A. Yes. The tap fee includes a plant capacity fee and a tap fee, as shown in
4 the company's Supplemental Response to Staff Data Request #1-2.

5 **Q. What are the amounts of the fees?**

6 A. The tap fee for water is \$600.00 and the tap fee for sewer is \$1,200.00

7 **Q. Are the level of these fees appropriate?**

8 A. No. It is my understanding that the plant capacity portion of the fee is
9 designed to recover costs related to expansion of facilities for water
10 supply and sewerage treatment. Given that the system now relies on bulk
11 service purchases from York County, the plant capacity portion of the fee
12 is no longer appropriate.

13 **Q. What do you recommend**

14 A. I recommend that the level of the tap fee be set to recover only those
15 costs related to tapping on a new customer. Additionally, I recommend
16 that the company only be allowed to charge this fee when it actually
17 performs the work related to tapping on a new customer or if the company
18 is required to reimburse another party for that work.

1 If housing developers are the ones actually incurring the costs to install
2 taps and the company has no developer agreements to reimburse the
3 developer (as stated in response to CA.#1-1), then the company should
4 not charge a tap fee.

5 **Q. Does this conclude your Direct Testimony?**

6 **A. Yes, it does.**

MICHAEL A. BLEIWEIS
CONSULTING EXPERIENCE

1	<u>IDAHO</u>	
2	Idaho Electric Company)	Docket Nos.: 100726)
3)	100727)
4	Idaho Water Company)	100728)
5	<u>INDIANA</u>	
6	Flowing Wells Water Company	Docket No. 34739
7	<u>MASSACHUSETTS</u>	
8	Hingham Water Company	Docket No. 19744
9	American Water Company	Docket No. 19900
10	<u>NEW JERSEY</u>	
11	Commonwealth Water Company	Docket Nos.: 784-274
12		819-781
13		842-100
14		WR8503245
15	Elizabethtown Water Company	Docket Nos.: 802-76
16		818-735
17		WR8504330
18	Mt. Holly Water Company	Docket Nos.: 805-314
19		819-801
20	Monmouth Consolidated Water Company	Docket Nos.: 819-816
21		828-723
22		831-1113
23		850-3267
24	Public Service Electric and Gas Co.	Docket No. 812-76

MICHAEL A. BLEIWEIS
CONSULTING EXPERIENCE

1	<u>NEW JERSEY</u>	
2	Atlantic City Electric Company	Docket Nos.: 7911-9511
3		839-753(LEAC)
4		8410-1079(LEAC)
5		ER8504434
6		8609980-4981
7		8709-1159&1160
8		8809-1053
9		ER90091090J
10		ER92020253J
11	Jersey Central Power and Light Co.	Docket Nos.: 811-25
12		831-110
13		8507698
14		8601121(LEAC)
15		ER87111295(LEAC)
16		ER91121820J
17	Rockland Electric Company	Docket No. 827-612
18	Middlesex Water Company	Docket Nos.: 829-707
19		845-402
20	New Jersey Natural Gas Company	Docket Nos.: 831-46
21		838-687 (LPGA)
22	Hackensack Water Company	Docket Nos.: 837-622
23		847-698
24	Elizabethtown Gas Company	Docket Nos.: GR86121374
25		GR88080913(LPGA)
26		GR8812-1321
27		GR8801-0217
28	Toms River Water Company	Docket No. WR92010081
29	<u>OHIO</u>	
30	American Utilities Co. (water)	Docket No.80-999-AIR

MICHAEL A. BLEIWEIS
CONSULTING EXPERIENCE

1 PENNSYLVANIA

2	Philadelphia Electric Co. (Elec and Gas Divs)	Docket Nos.: R-80061225
3		R-811626
4		R-811719
5		R-822291
6		R-832410
7		R-842590
8		R-850152
9		R-860346-1307(f)
10		R-880955-1307(f)
11		R-891290-1307(f)
12		R-911976-1307(f)
13	Equitable Gas Company	Docket No. R-80041169
14	Duquesne Light Company	Docket Nos.: R-811470
15		R-832337
16		M-00930404C001
17	West Penn Power Company	Docket Nos.: R-811836
18		R-901609
19	The Peoples Natural Gas Co.	Docket No. R-821906
20	Pennsylvania Gas & Water Co. (Gas and Water)	Docket Nos.: R-821961
21		R-822102
22		R-891261
23	Metropolitan Edison Company	Docket No. R-842770
24	Pennsylvania Electric Co.	Docket No. R-842771
25	Philadelphia Water Department	1985 Rate Increase
26		1990 Rate Increase
27		1992 Rate Increase

MICHAEL A. BLEIWEIS
CONSULTING EXPERIENCE

PENNSYLVANIA

1		
2	Philadelphia Gas Works	1986 Rate Increase
3		1988 Rate Increase
4		1990 Rate Increase
5		1991 Rate Increase
6		1993-94 Operating Budget
7		1994-95 Operating Budget
8		1995-96 Operating Budget
9		1996-97 Operating Budget
10		
11	UGI Corporation	Docket No. R-860344-1307(f)
12		R-00932862
13	Columbia Gas of Pennsylvania	Docket Nos.: R-860527
14		R-87058
15		R-901873
16		R-911921-1307(f)
17		R-932597-1307(f)
18	Western Pennsylvania Water Co.-	
19	Butler District	Docket No. R-832381
20	Pennsylvania-American Water Co.	Docket No. R-880916
21	T.W. Phillips Gas and Oil Co.	Docket Nos.: R-88194
22		R-891566
23	Philadelphia Suburban Water Co.	Docket No. R-891270
24	Newtown Artesian Water Co.	Docket No. R-911977
25	Indian Rock Water Company	Docket No. R-911971
26	Apollo Gas Company	Docket No. R-092254
27	Shenango Valley Water Company	Docket No. R-00922420
28	Pennsylvania Power & Light Company	Docket No. M-00930406C0001
29	Borough of Media Water Works	Docket No. R-00943098

MICHAEL A. BLEIWEIS
CONSULTING EXPERIENCE

1 **PENNSYLVANIA**

2 PFG Gas, Inc./North Penn Gas, Inc. Docket No. R-00953524

3 **RHODE ISLAND**

4 Bristol County Water Company Docket No. 1787

5 **NEW MEXICO**

6 Gas Company of New Mexico Case No. 1916

7 Public Service Co. of New Mexico Case No. 1916

8 **DELAWARE**

9 Delmarva Power & Light Co. Docket Nos.: 86-24
10 91-20
11 92-85

12 Artesian Water Company Docket Nos.: 90-10
13 92-5

14 Wilmington Suburban Water Co. Docket No. 91-1

15 Delaware Electric Cooperative Docket No. 91-37

16 **SOUTH CAROLINA**

17 South Carolina Pipeline Corp. Docket No. 88-652-G

18 South Carolina Electric and Gas Co. Docket Nos.: 88-695-G
19 92-009-G

20 Peoples Natural Gas Co. of SC Docket No. 89-12-G

21 Carolina Water Service Docket No. 93-738-W/S

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

1 **MAINE**

2 Central Maine Power Co.

Docket No. 92-345

3 Mr. Bleiweis has also supervised or participated in the preparation of rate cases
4 for companies in the states of Arizona, California and New York.

5

Schedule MAB-1

Tega Cay Water Service, Inc.
Operating Margins
Test Year Ended December 31, 1995

	Company	Adjustment	C.A.	Schedule
	(1)	(2)	(3)	MAB-
Net Income	(\$28,381)	\$29,982	\$1,601	7
Revenues	\$677,141	\$6,019	\$683,160	below
Operating Margin	-4.19%	4.42%	0.23%	
<u>Revenues</u>				
Service Revenues	\$665,836	\$5,919	\$671,755	5
Misc Revenues	13,327	118	13,445	5
Uncollectible Accounts	(2,022)	(18)	(2,040)	5
Total	<u>\$677,141</u>	<u>\$6,019</u>	<u>\$683,160</u>	

Schedule MAB-2

Tega Cay Water Service, Inc.
Utility Income Before Income Taxes
Test Year Ended December 31, 1995

	Company	Adjustment	C.A.	Schedule
	(1)	(2)	(3)	MAB-
U.O.I. before Income Taxes	\$67,326	\$0	\$67,326	
Adjustments:				
Salaries & Wages		2,128	2,128	3
Expense Variances		8,630	8,630	4
Deferred Charges-Water		3,808	3,808	C.A.#1-20
Deferred Charges-Sewer		171	171	C.A.#1-20
Customer Growth		5,954	5,954	5
Allocations		25,493	25,493	6
Total Adjustments	0	46,184	46,184	
Adjusted U.O.I. bef Inc Txs	\$67,326	\$46,184	\$113,510	

Schedule MAB-3

Tega Cay Water Service, Inc.
Salaries & Wages
Test Year Ended December 31, 1995

	Salary as of 12/31/95	FICA	SUTA	FUTA	Total		Pension	ESOP	Other	Total	
					Taxes	Health Insurance				Benefits	
<u>OPERATORS</u>											
G, S	\$19,500	\$1,492	\$91	\$56	\$1,639	\$2,775	\$585	\$780	\$413	\$4,553	
E,B	18,883	1,445	46	28	1,519	1,388	567	755	207	2,917	
H,B	13,824	1,041	15	14	1,070	751	380	472	112	1,715	
H,J	3,280	249	3	3	255	148	90	112	22	372	
D,C	5,360	279	3	3	285	148	147	183	22	500	
Total Operators Salary	\$60,847	\$4,506	\$158	\$104	\$4,768	\$5,210	\$1,769	\$2,302	\$776	\$10,057	

OFFICE

B,S	\$41,358	\$3,103	\$51	\$56	\$3,210	\$2,775	\$1,136	\$1,413	\$413	\$5,737	
B,J	17,388	1,330	51	56	1,437	2,775	477	594	413	4,259	
B,S	26,309	2,013	51	56	2,120	2,775	722	899	413	4,809	
C,J	19,765	1,512	51	56	1,619	2,775	543	675	413	4,406	
D,G	26,916	1,995	51	56	2,102	2,775	739	920	413	4,847	
D,K	21,148	1,618	51	56	1,725	2,775	581	723	413	4,492	
L,P	14,685	1,123	51	56	1,230	2,775	403	502	413	4,093	
M,L	25,558	1,891	51	56	1,998	2,775	702	873	413	4,763	
T,P	23,490	1,797	51	56	1,904	2,775	645	803	413	4,636	
T,E	33,108	2,535	51	56	2,642	2,775	909	1,131	413	5,228	
W,T	20,217	1,482	51	56	1,589	2,775	555	691	413	4,434	
W,D	24,358	1,863	51	56	1,970	2,775	669	832	413	4,689	
W,M	24,246	1,791	51	56	1,898	2,775	666	828	413	4,682	
W,S	20,000	1,530	51	56	1,637	2,775	600	800	413	4,588	
Subtotal	\$338,546	\$25,583	\$714	\$784	\$27,081	\$38,850	\$9,347	\$11,684	\$5,782	\$65,663	
Allocation to TC @6.00%	\$20,313	\$1,535	\$43	\$47	\$1,625	\$2,331	\$561	\$701	\$347	\$3,940	

Company	Adj	C.A.
Operator	\$61,429	\$60,847
Office	21,111	20,313
Payroll Taxes	6,695	6,393
Benefits	14,443	13,997
TOTAL	\$103,678	\$101,550

Source: C.A.#2-10

Schedule MAB-4

Tega Cay Water Service, Inc.
O&M Expense Variances
Test Year Ended December 31, 1995

		<u>12/31/93</u>	<u>12/31/94</u>	<u>12/31/95</u>	<u>Total</u>	<u>Average</u>	<u>Adjustment</u>
603-03	Sewer-Maintenance Supplies	\$1,637	\$3,733	\$4,707	\$10,077	\$3,359	(\$1,348)
603-06	Sewer-Maintenance Repairs	\$7,021	\$8,540	\$10,440	\$26,001	\$8,667	(1,773)
603-11	Sewer-Sewer Rodding	\$2,024	\$7,254	\$12,902	\$22,180	\$7,393	<u>(5,509)</u>
	TOTAL						<u><u>(\$8,630)</u></u>

Source: C.A. 2-7

Schedule MAB-5

**Tega Cay Water Service, Inc.
Customer Growth Adjustment
Test Year Ended December 31, 1995**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
End of test year billing units	18,156	17,196	
Average test year billing units	17,950	17,069	
Change in billing units	<u>206</u>	<u>127</u>	
P.F. revenues @ present rates	<u>\$239,111</u>	<u>\$426,725</u>	
Revenue per billing unit	<u>\$13.32</u>	<u>\$25.00</u>	
Adjustment	\$2,744	\$3,175	\$5,919
Miscellaneous revenues @ 2.00%			118
Uncollectible accounts @.30%			(18)
Gross receipts tax @1.10%			<u>(65)</u>
Net adjustment			<u>\$5,954</u>

Source: C.A. 1-31

Schedule MAB-6**Tega Cay Water Service, Inc.
General Expenses to Be Disallowed
Test Year Ended December 31, 1995**

Agency Expense	\$76
Legal fees	550
Audit fees	2,047
Temp. Empl.	235
Employ Finder Fees	708
Director Fees	2,864
Accounting Studies	235
Tax Return Review	522
Other Outside Services	372
Deferred Compensation	31
Publ Subscriptions & Tapes	186
Printing & Blueprints	294
UPS & Air Freight	148
XEROX	121
Off Supply Stores	406
Cleaning Supplies	67
Memberships	68
Office Telephone	640
Office Telephone Long Dist	159
Office Electric	601
Office Cleaning Serv	499
Landscaping, Mowing, Snow	372
Office Garbage Removal	31
Decor & Repaint Structures	24
Other Office Maint	925
Employees ED Expenses	339
Office Education/Train Exp	697
Bank Serv Charges	1,674
Real Estate Tax	1,281
Interest-Interco.	9,321
TOTAL	<u>\$25,493</u>

Source: C.A. 1-41

Schedule MAB-7

Tega Cay Water Service, Inc.
Income Taxes
Net Utility Operating Income
Test Year Ended December 31, 1995

	Company (1)	Adjustment (2)	C.A. (3)	Schedule MAB-
U.O.I. before Income Taxes	\$67,326	\$46,184	\$113,510	2
Interest on Debt	113,676	(2,720)	110,956	8
Net Inc bef Income Taxes	<u>(46,350)</u>	<u>48,904</u>	<u>2,554</u>	
State Tax @5.0%	<u>(2,318)</u>	<u>2,446</u>	<u>128</u>	
Federal Taxable Income	<u>(44,032)</u>	<u>46,458</u>	<u>2,426</u>	
Federal Tax @34%	<u>(14,971)</u>	<u>15,796</u>	<u>825</u>	
Net Utility Opg Income	84,615	27,942	112,557	
Customer Growth Adj.	<u>680</u>	<u>(680)</u>	<u>0</u>	
Adj. Net Util Opg. Income	85,295	27,262	112,557	
Interest on Debt	<u>113,676</u>	<u>(2,720)</u>	<u>110,956</u>	8
Net Income	<u><u>(\$28,381)</u></u>	<u><u>\$29,982</u></u>	<u><u>\$1,601</u></u>	

Schedule MAB-8

Tega Cay Water Service, Inc.
Interest on Debt
Test Year Ended December 31, 1995

	Company (1)	Adjustment (2)	C.A. (3)	Schedule MAB- 9
Rate Base	\$2,382,252	(\$57,049)	\$2,325,203	
Percent Debt	53.08%	0.00%	53.08%	
Cost of Debt	8.99%	0.00%	8.99%	
Interest on Debt	\$113,676	(\$2,720)	\$110,956	